

**SPECIAL REPORT ON THE
CITY OF NORFOLK'S
DEPARTMENT OF HUMAN SERVICES**

NOVEMBER 2007



REVIEW SUMMARY

On June 18, 2007, the Department of Social Services (Social Services) contacted the Auditor of Public Accounts concerning some unusual requests for reimbursement by the City of Norfolk's (City) local social service agency, the Department of Human Services (Human Services). Social Services reported this matter to the Auditor of Public Accounts in accordance with Section 30-138 of the Code of Virginia and their preliminary assessment indicated that the transactions involved Social Services, Norfolk State University (University), and Human Services.

From our limited review we were unable to determine if there is a direct relationship between Human Services' reimbursement requests to Social Services and the City of Norfolk's accounting records. We believe that there is a significant risk that Human Services may have requested reimbursement in error from Social Services.

This report summarizes the work we performed and our observations. The scope of the work included interviews with various personnel and review of source documentation and other information. We conducted this examination in three phases.

In the first phase, we reviewed the information gathered by Social Services' Internal Audit staff during their review of Human Services. The second phase included a limited review of Human Services' reporting of reimbursement requests to Social Services and the adequacy of the accounting systems and records to support these reimbursement claims. The final phase was a review of a contract between the University and Human Services.

Based on our work, we have the following general observations and conclusions.

1. We could not confirm that the accounting system and supporting documentation directly supported Human Services' reimbursement requests to Social Services for most of the amounts for fiscal year 2007.

Social Services should require Human Services to reconcile their accounting system and detailed records to each request for reimbursement and make any appropriate adjustments.

2. City management, outside of Human Services, was unaware of the scope of the contract with the University. Additionally, City management did not know of the University subcontractor's involvement in the procurement method or the scope of their work.

City management should institute a review of all outside contracts directly entered into without the use of the City's purchasing office, especially any others within Human Services.

3. The Code of Virginia authorizes the Commissioner of Social Services to determine the appropriate and reasonable amount of reimbursement for such

items as rent and other variable costs. There is no central record or documentation of any of these determinations.

Social Services should document the Commissioner's determination of the appropriate and reasonable amount of reimbursement for such items as rent and other variable costs.

4. Social Services does not have a formal, documented, or systematic method of reviewing reimbursement requests and monitoring local social service agency financial activity. Social Services has an informal process to review and monitor local social service agency financial activity, which resulted in the discovery of the issues in this report.

Social Services should formalize its review and monitoring activities and document what authority the staff have to take appropriate actions if the activity appears inappropriate or excessive.

5. The University's Department of Social Work negotiated and oversaw the contract between the University and Human Services outside of all the University's normal internal control systems. On several occasions senior managers approved actions to bypass normal University processes.

The President and Board of Visitors should re-enforce and emphasize to University staff and management that no contracts are valid and binding on the University if done outside of the University's normal procurement process.

In addition to the major findings above, we have other matters which we believe each party should address and we include them in the body of the report.

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Department of Social Services

Background

The Department of Social Services (Social Services) administers over 40 programs that provide benefits and services to low-income families, children, and vulnerable adults. Local social services agencies, serving every county and city in the Commonwealth, assist the State with the administration of these programs. There are 120 local social service offices across the state that report to the local governments but receive direction and support from Social Services. The Virginia model for delivery of social services is commonly referred to as “state supervised, locally administered.”

The majority of the benefit and service programs receive funding from the federal government, and therefore, must comply with federal rules and regulations. Typically, Social Services deals directly with the Federal agencies funding these programs and requests reimbursement. Additionally, Social Services ensures the meeting of any state and local funding match requirements.

Because Social Services receives most of the funding for benefits and programs before passing it along to the localities, it is ultimately responsible for the proper administration of all federal and state-supported social service programs. Social Services establishes policies and procedures to ensure adherence to federal and state requirements, which local offices implement. Social Services enforces these policies by monitoring the local offices.

Reason for Review

In December 2006, Human Services submitted a \$7.6 million adjustment to Social Services that increased its reimbursement from Social Services and, in turn, the federal government. Although the adjustment decreased the amount of reported child care expenses by \$0.5 million it also increased the amount of reported retirement expenses by \$1.4 million (discussed later in this report) and reclassified two years worth of expenses, \$5.7 million, which were previously reported as non-reimbursable.

Social Services’ program staff brought this adjustment to management’s attention in April 2007 as part of their review of locality expenses. As a result of the questions raised during this review, the Commissioner of Social Services directed his Office of Audit Services (Internal Audit) to work with the Divisions of Finance and Child Care and Development to review the \$7.6 million adjustment.

During this review, Social Services discovered that Human Services had no documentation supporting the detailed costs for the two years worth of previously reported non-reimbursable expenses totaling \$5.7 million. Social Services requires localities to analyze their expenses to determine if they are allowable before processing reimbursement requests. In order to satisfy itself that it only reimbursed Human Services for allowable expenses, Social Services expanded the scope of their review to include all reimbursable expenses reported by Human Services for fiscal year 2007.

Internal Audit and Findings

As requested by the Commissioner, Internal Audit conducted a review of Human Services reimbursement requests in December 2006. During this review, Internal Audit discovered certain issues which required them to review some reimbursement requests for prior years. While Human Services appears to have understood the scope of the Internal Audit work, it does not appear that they initially shared this information with City Management.

Internal Audit initially encountered difficulties receiving information and explanations from Human Services staff concerning the submission of reimbursement requests to Social Services. The lack of open communication occurred within Human Services. Based on the available information, Internal Audit prepared an initial draft report and shared that document with the management of both the City and Human Services.

City Management, upon finding the lack of response to Internal Audit's questions and information inquiries by Human Services, took immediate steps to respond to Internal Audit's requests. Upon receiving that information, Internal Audit revised its report and the following constitute their remaining issues, which we have grouped by those included elsewhere in this report and those discussed only in the Internal Audit report.

Issues included in this report

- Monitoring of Localities by Social Services
- Guidance for Localities by Social Services
- Human Services' Reconciliation
- Rent Expenses at Human Services
- Support for Administrative Staff Salaries and Other Costs

Some of the Issues related to Human Services discussed in detail in the Internal Audit's report

- Contract Conflict of Interest

Human Services used a city-wide vendor contract for computer programming services. Human Services' Director of Information Technology had responsibility for overseeing the work performed; and during this time, a conflict of interest arose when the Director supervised a direct relative performing contracted work. While Internal Audit is not questioning the receipt of the work, the time taken to complete the work, or its quality, they are questioning management's override of the internal controls.

- Controls over Information Technology Contract

Internal Audit found a number of the payments to a city-wide vendor for computer services were above the budgeted amounts established in the original work order. Additionally, supporting documentation for one of the

payments indicates the vendor provided services outside the scope of the contract amendment.

- City Attorney Salaries

The City Attorney's office provides a variety of services to Human Services. There is an indication that Human Services may have requested reimbursement twice from Social Services for these attorneys.

- Planning Council's Indirect Rate

Human Services has a contract with a vendor, Planning Council, for services. The contract with Planning Council references that it has a federally approved indirect cost rate that it subsequently includes in its invoices to Human Services.

City of Norfolk: Department of Human Services

Background

The Department of Human Services (Human Services) is the City's social services agency, which within the Commonwealth of Virginia delivers services contained in the administrative guidelines of Social Services. Under this arrangement, Human Services determines eligibility and recipient needs and provides benefits either through direct transfer from the Commonwealth or through local programs. In providing these benefits and programs, Human Services incurs certain costs either by Human Services' employees or their contractors.

Social Services' programs, which are primarily federally required programs, consist of federal, state, and local costs under which Social Services reimburses the City for the federal and state share of these costs. In order to receive reimbursement, Social Services has provided localities an accounting system to request reimbursement, known as LASER.

Localities enter cost information by program and activity in summary form and this system processes the reimbursement request. LASER also serves as the mechanism by which Social Services requests reimbursement from the federal government; therefore, the federal requirement that the localities' accounting system and detailed records support the summary reimbursement request applies to all transactions within LASER.

Social Services originally developed LASER to meet certain federal reporting requirements and the current system does not capture detailed information, nor does the system allow the transfer of detailed accounting information from the localities' accounting system to LASER. This lack of interface requires the localities to maintain sufficient information to demonstrate how they allocated and accumulated charges from individual payments into the summary for each program and activity. Most localities maintain a series of spreadsheets or have special computer reports from their accounting systems to support the accumulated entries into LASER.

Reason for Review

Human Services processed several significant reimbursement requests, which were unusual in amount and timing. As a result, the Social Services Commissioner requested that Social Services Internal Audit perform a review, which resulted in contact with the Auditor of Public Accounts. In addition to reviewing the Internal Audit report as discussed above, we conducted interviews with various personnel, reviewed source documentation and other information, and found the following issues related to Human Services' processing of reimbursement requests.

Processing Reimbursement Requests

Human Services has no written procedures for the processing of individual charges or the method of summarizing information for requesting reimbursement from Social Services. Individuals within the accounting service area review a charge or bill and determine how much to record as a claim for reimbursement. Their claiming process was insufficient to allow us to either duplicate the process or determine a pattern for similar charges. Additionally, we could not verify from the City's

accounting records that the system included the total charge on individual vouchers. Further, we could not determine how much of other charges, if any, the City recorded in the LASER summary reimbursement request.

Observation

Subsequent to the period under review, Human Services hired an Enterprise Controller. This individual has begun documenting the process for processing reimbursement requests, allocating an individual charge, and accumulating the amount to reconcile the City's accounting records and individual payments to the LASER reimbursement requests.

Other Requests for Reimbursement

Human Services made a request to have Social Services reimburse them for their share of unclaimed retirement costs, which amounted to approximately \$1.4 million, which resulted in reimbursement to the City of \$700,000. The explanation that Human Services provided for this additional retirement claim is that the rate charged for retirement increased, and for two years, Human Services did not increase their request for reimbursement to reflect the higher rate. However, without the detailed reconciliation discussed later, Human Services cannot prove that they requested reimbursement at the lower amount.

Federal regulations require that grant recipients or sub-recipients have accounting systems which, at a detailed level, will support any billings to the federal government. These regulations do provide that a reconciliation can occur that shows the summary of detailed transactions in the billing.

Human Services had Norfolk State University's subcontractor prepare their year-end reconciliation of LASER without requiring detailed supporting documentation. The available reconciliation lacks the detailed information necessary to allow an appropriate review, oversight, and determination of the reimbursements.

Observation

We could not take individual transactions and trace them in summary or other form into LASER from the accounting records. Additionally, we found that Human Services did not apply consistent policies or procedures when determining the amount of an individual transaction to charge to Social Services.

We believe that this situation constitutes a material breakdown in the system of internal controls. Further, we are recommending that Social Services require the City to perform a detailed reconciliation of the City's accounting records to the LASER billings.

Managing Reimbursement Request Process

During the period November 2004 to June 2007, Human Services expanded its Training Academy contract with Norfolk State University to include other services. As we will later discuss under the Norfolk State portion of this report, the University elected to use the subcontractor to prepare its bills to Human Services.

The University's subcontractor provided numerous services to Human Services, including assisting in the processing of reimbursement requests. As previously mentioned, the University's subcontractor prepared a year-end reconciliation of LASER amounts to the City's accounting system. The University's subcontractor also processed some of the reimbursement requests that resulted in this review, under revenue maximization.

The University's subcontractor apparently had extensive control over the accounting and reporting function within Human Services, including the approval and processing of transactions and reimbursement requests. Until recently, no one within Human Services had an extensive knowledge of the department's finances, except for the University's subcontractor.

Observation

Until the management of Human Services hired the Enterprise Controller in May 2007, neither the University nor the management of Human Services appeared to have had sufficient knowledge to review the University's subcontractor's work. As we discuss later, neither the University nor the management of Human Services appeared to provide any oversight of these services.

State and Federal Reimbursement Claims Process

The portion of the billings paid by Human Services on page 14 relates to the Training Academy costs claimed for reimbursement. As previously discussed, LASER is the billing mechanism that Social Services provides localities to summarize their individual transactions for billing to the state and federal government. Human Services' management appears to have relied solely on the University's subcontractor to instruct staff on how to process claims for reimbursement.

Human Services, until just recently, anticipated claiming approximately \$544,000 of the University's discounted Training Academy overhead through their Local Public Assistance Cost Allocation Plan. The University's subcontractor developed and submitted this plan over two years ago; however, Social Services never informed Human Services' management that they would approve the submitted plans.

Furthermore, Social Services sent a memo to all Local Services Directors in June of 2007 stating that Social Services' settlement with the federal government required it to suspend all existing local public assistance cost allocation plans. During our review in August 2007, we found

that Human Services management continued to believe it would receive and retain an estimated \$272,000 in federal funds as a result of claiming the University's discount in their Cost Allocation Plan.

Observation

Human Services relied heavily on the University's subcontractor, who received no supervision by the University, to determine how Human Services would claim reimbursement from both the State and Federal government. Furthermore, we could find no evidence that Human Services' management tried to obtain guidance from Social Services or questioned the appropriateness of the University subcontractor's advice on claiming non-cash items for reimbursement.

Managing Administrative Functions

Department heads within the City of Norfolk's management structure have significant responsibilities for the delivery of services and direct oversight and management of administrative functions within their Departments. Under this arrangement, Department heads have the responsibility for directing the work of staff and ensuring that this staff comply with appropriate policies and procedures, whether city employees or contractors.

Delegation of responsibilities require Department heads to have a complete working knowledge of both the operational and administrative functions of their department with sufficient understanding to provide active guidance and review of all of the work performed. Where a Department head may not possess the working knowledge, this delegation requires the Department head to hire and manage individuals, who possess these talents.

Observation

In reviewing the activities of Human Services operations and its relationships with both Social Services and the University, we can find no documented evidence of properly executed oversight and management of administrative functions. Contractors and employees appear to have done work, which they thought appropriate, with no direction from management.

Norfolk State University

Background

In November 2002, Human Services contracted with Norfolk State University (University) and has annually renewed the contract through June 30, 2007. The scope of the contract requires the University to provide project management, Training Academy support, and other local services as deemed necessary by Human Services.

The University entered into a separate agreement with Wethington and Associates (subcontractor) to provide project management, training support, and other services for Human Services. Further, the University's agreement with Wethington and Associates included tasks to maximize state and federal reimbursement for Human Services and administer processes for claiming those reimbursements.

Contract Procurement

Human Services and the University have had an on-going relationship for providing staff training since November 2002. Under this agreement, the University would develop and deliver training to Human Services' staff. The change in the arrangement covered by this contract was the addition of Wethington and Associates as a subcontractor. Human Services required the addition of the subcontractor to the agreement. The November 2004 contract included the subcontractor's duties.

Since Human Services required the use of a specific subcontractor, the University had to receive permission from the Commonwealth's Department of General Services to enter into a sole source agreement. The justification for the use of the subcontractor as a sole source vendor stated that, after contacting several local governments, the University could find no other vendor who could perform the work required by Human Services at the level of knowledge and experience of Wethington and Associates. Additionally, the University stated that Human Services required the use of this specific subcontractor. The Commonwealth's Department of General Services approved the University's agreement with the subcontractor as a sole source procurement.

Observation

There is no documentation that the University attempted to identify other vendors when it extended or renewed the contract.

The University's former Vice President for Finance and Business originally authorized this contract and the most recent contract renewal had the approval of the Vice President for Academic Affairs on behalf of the University. The Director of Human Services signed the contract on behalf of the City.

Observation

The subcontractor actively participated in the negotiations of the contract between Human Services and the University. The subcontractor represented the interest of Human Services in setting the requirements for the contract as well as participating in drafting the contract. However, the University is the primary contractor in this agreement, with the subcontractor working for the University.

Contract Management

The primary contract is between Human Services and the University, with Wethington and Associates as a subcontractor of the University. During our review of the management of the contract, we observed two distinct processes at work.

The University, with the Dean of the School of Social Work functioning as the lead manager, followed the University's general policies and procedures for the management of a grant or contract with the exception of billings for the deliverables for which the University was responsible. However, the Dean of the School of Social Work, who had oversight responsibilities for the subcontractor, did not use the same oversight approach when supervising the subcontractor.

Our discussion of this contract below will explain how the University managed the contract and documented its performance. We will limit our discussion to the highlights of the contract management and the information provided by the University's staff.

University Provided Services

The University's portion of the contract was primarily the delivery of training programs to Human Services staff. The University used a committee comprised of Human Services' employees and managers along with University faculty to identify training topics and evaluate course materials and instructors. The committee met periodically and prepared minutes and recommendations concerning new courses, changes to existing course materials, and instructor evaluations.

University staff developed and presented training sessions and maintained records of time spent in session development, preparation, and presentation. The University had records of presentation times and locations, attendee sign-in sheets, copies of session materials, and session evaluations.

University staff also maintained records of related training costs such as handout reproduction, session incidentals, and other costs. Most instructors were employees of the University, and therefore, received no additional compensation for class instruction. Their time records supported the allocation of their salaries for later billings under the contract.

Observation

All charges incurred under the portion of the contract related to the University directly delivering training programs to Human Services' staff had appropriate supporting documentation, and the programs appeared to meet the expectations of outcomes set by the training oversight committee.

Subcontractor Provided Services

The subcontractor reported directly to the Dean of the School of Social Work, who was to provide oversight and monitor the subcontractor for the University. The implied contract with the subcontractor set forth the following responsibilities.

1. Consult with the University's Dean of the School of Social Work to plan and organize training for Human Services' employees.
2. Participate with University employees to plan and conduct individual training classes for Human Services' employees.
3. Work with University staff, principally the Dean of the School of Social Work, to identify those University expenses that can be a charge to the contract with Human Services and to categorize those expenses as training or other expenses.
4. Work directly with Human Services' staff to provide accounting and other services, principally to identify those costs that would maximize reimbursement from the state Department of Social Services under federal programs.
5. Bill the University for all services provided under the contract, both the expenses through the University training program and the expenses provided directly to Human Services.
6. Prepare the University's bill to Human Services that included both the subcontractor's expenses and direct University costs and facilitate payment of the University's bill by Human Services.

We requested from the Dean of the School of Social Work (Dean) all the documentation he used to monitor the subcontractor's performance and accomplishments. There is apparently no documentation in his possession or at the University supporting the work, and therefore, the billing by the University of the subcontractor's work.

In an interview with staff of the Auditor of Public Accounts, the Dean indicated that the subcontractor performed most of his work directly for Human Services under the supervision of Human Services' Director. During the Dean's discussions with the Director, there were no complaints or criticism of the subcontractor's work; therefore, he assumed the subcontractor was performing his work in accordance with the contract. Additionally, the Director had not rejected or questioned any of the subcontractor's billings included in the University's bills for the program.

Observation

It appears that the subcontractor worked directly for Human Services and performed no work or had any direct participation in the work performed by the University. The University included and submitted subcontractor billings to Human Services without any documentation as to the adequacy of the subcontractor's work or performance.

Clearly, the subcontractor performed work for Human Services; however, his contract was with the University and University management should have reviewed the scope, deliverables, and quality of the work performed. The subcontractor and Human Services should have entered into a direct contract for consulting services, and the University should not have participated in this arrangement.

We believe that individuals at both the University and Human Services used the contract with the University to circumvent both City and state procurement processes. Had the Department of General Services been aware of the duties and responsibilities of the subcontractor, we believe that they would not have approved the University's use of a sole source contract.

Contract Billing Process

The annual amount of the contract between the University and Human Services was \$1.2 million per year which includes the subcontractor's agreement, which had no amount specified. Under the contract, the University billed Human Services approximately once each quarter. Additionally, the University agreed to have the subcontractor accumulate the University's costs for submission to the University's Grants and Contract Accounting department for preparation of the final bill to Human Services.

Billing Background Information

All billings to Human Services consisted of two components, the University's direct costs for training and overhead and a bill submitted by the subcontractor. The subcontractor submitted a single page bill that included direct labor costs, expenses, and overhead, with no supporting documentation.

The University's portion of the bill comes from information extracted from the University's accounting system that includes direct labor, expenses, and fringe benefit costs. There is a separate overhead calculation using the federally approved overhead rate. All information in the University's accounting system has appropriate supporting documentation.

Billing Preparation Process

In addition to having the subcontractor prepare the University's billing to Human Services, which includes the subcontractor's bill, there are several unique aspects followed in this billing process. We will attempt to explain these unique aspects below.

Observation

Neither the billing process discussed to this point nor any of the following processes are within the University's formal policies or procedures and do not follow any other formal practices at the University. During our review of this contract, we discussed the normal grant and contract practices with University's Sponsored Programs, Accounting, and Internal Audit. None of these sources were fully aware of the need for this significant departure from the University's formal policies and procedures.

Subcontractor Payment and Subsequent Billing

The subcontractor submitted a one page bill without documentation to the University for his firm's services under the contract. The bill included a breakdown of direct labor, expenses, and overhead incurred between Accounting and Other Services for Human Services and the Training Academy. Overhead was a percentage calculation of 20 percent of the total direct labor and expenses.

After computing the total costs using this calculation, the subcontractor reduced the calculated overhead amount by approximately 75 percent. The subcontractor presented this net amount to the Dean of the School of Social Work for review and approval for payment by the University.

After approval by the Dean, the subcontractor usually delivered the billing to the University's accounting department for payment processing. The amount paid was the net amount after reduction for the 75 percent discounted overhead.

Observation

Nothing in the contract or the documentation explains why the subcontractor reduced the overhead portion of his billing by 75 percent. The contract also does not contain any terms or conditions of payment, required supporting documentation, or indications of how the subcontractor should report his effort or deliverables.

Preparation of Human Services Billing

The subcontractor would prepare the University's bill to Human Services by taking his gross billing and adding to it the direct costs incurred by the University for direct labor, fringe benefits, and expenses. The subcontractor obtained the necessary information from the University's accounting system which had the contract established as a separate project.

The subcontractor would total all of the appropriate costs and apply the University's federally negotiated indirect cost rate, which varied between 49 percent and 37 percent during this period, as the overhead amount. In accordance with the terms of the contract with Human Services, the subcontractor would then reduce the calculated overhead amount by 75 percent. This discount was set forth in the contract between the University and Human Services to provide each party with additional funds for expanding and enhancing related projects.

The subcontractor had the University's Grants and Contracts Accounting department prepare the billing to Human Services on the University's official forms. The subcontractor then hand delivered the bill to Human Services for payment to the University.

Observation

This process results in the University passing along the full subcontractor bill, including the discounted overhead, to Human Services. The University also applied its overhead or indirect cost rate to the total subcontractor bill rather than the actual payment amount made to the subcontractor. Over the course of the contract, we estimate that Human Services billings include \$163,478 in overhead that the University did not pay the subcontractor; however, the University may have considered this amount as part of its own overhead reduction.

The University regularly bills other parties with which it has grants and contracts without providing any forms of billing reductions. This inconsistency in the University's billing practices could subject them to billing questions by other granting agencies and contract partners.

Summary of Billing

The table below shows a summary of the annual fiscal year billings under this contract using amounts paid during the state/city fiscal year. The table shows the amounts billed by the subcontractor for the Training Academy work as well as the amounts billed for other local efforts including accounting services. The table also shows the amount of overhead discounted by the subcontractor to arrive at the amount paid to the subcontractor by the University.

In the next part of the table, we show how the subcontractor added his billed amounts to the University's Training Academy costs and then the overhead calculation to arrive at the total University costs. The next line shows the amount of overhead discounted by the University to arrive at the amount of the total billed to and paid by Human Services.

	<u>Through June 2004</u>	<u>July 2004 to June 2005</u>	<u>July 2005 to June 2006</u>	<u>July 2006 to June 2007</u>	<u>Totals</u>
<u>Subcontractor:</u>					
Total billed for Training Academy	\$ 44,528	\$ 208,025	\$ 232,247	\$ 205,691	\$ 690,491
Total billed for other local efforts	<u>14,400</u>	<u>74,365</u>	<u>159,612</u>	<u>355,934</u>	<u>604,311</u>
Total subcontractor billable costs	58,928	282,390	391,859	561,625	1,294,802
Less: discounted overhead	<u>(14,446)</u>	<u>(37,928)</u>	<u>(40,900)</u>	<u>(70,203)</u>	<u>(163,477)</u>
Total paid to subcontractor	<u>\$ 44,482</u>	<u>\$ 244,462</u>	<u>\$ 350,959</u>	<u>\$ 491,422</u>	<u>\$1,131,325</u>

Norfolk State University:

Subcontractor costs	\$ 43,484	\$ 265,606	\$ 391,859	\$ 561,625	\$1,262,574
University Training Academy costs	<u>-</u>	<u>258,280</u>	<u>403,126</u>	<u>697,519</u>	<u>1,358,925</u>
Total direct costs	43,484	523,886	794,985	1,259,144	2,621,499
University calculated overhead	<u>(12,047)</u>	<u>270,087</u>	<u>344,272</u>	<u>465,883</u>	<u>1,068,195</u>
Gross University billable costs	31,437	793,973	1,139,257	1,725,027	3,689,694
Less: discounted overhead	<u>-</u>	<u>(215,925)</u>	<u>(258,204)</u>	<u>(349,412)</u>	<u>(823,541)</u>
Total paid by Human Services	<u>\$ 31,437</u>	<u>\$ 578,048</u>	<u>\$ 881,053</u>	<u>\$ 1,375,615</u>	<u>\$2,866,153</u>

Note it does not appear that the University billed \$32,228 of subcontractor billable costs to Human Services.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

November 16, 2007

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We conducted a special review of some unusual requests for reimbursement by the **City of Norfolk's Department of Human Services (Human Services) to the Virginia Department of Social Services (Social Services)**. The review was a result of Social Services reporting this matter to the Auditor of Public Accounts in accordance with Section 30-138 of the Code of Virginia and their preliminary assessment indicated that the transactions involved Social Services, Norfolk State University (University), and Human Services.

This report summarizes the work we performed and our observations. The scope of the work included interviews with various personnel and review of source documentation and other information.

EXIT CONFERENCE

We discussed this report with management from Social Services, the University, and Human Services on November 5, 8, and 16, 2007, respectively. Responses from management are included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record and its distribution is not limited.

AUDITOR OF PUBLIC ACCOUNTS

GDS:wdh



COMMONWEALTH of VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

Office of the Commissioner

Anthony Conyers, Jr.
COMMISSIONER

November 14, 2007

Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street, Eighth Floor
Richmond, VA 23219

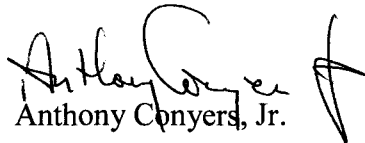
Dear Mr. Kucharski:

This is in response to the report on the Auditor of Public Accounts' (APA) review of certain requests for reimbursement by the Norfolk Department of Human Services, and related issues affecting the Virginia Department of Social Services and Norfolk State University.

The report makes several observations. The Virginia Department of Social Services (VDSS) concurs with those observations, which are substantially in agreement with the report on findings of VDSS' Office of Audit Services (OAS). The OAS report, including our management responses to the findings and recommendations, has been shared with APA. VDSS has established an action plan to address those findings and recommendations that requires a significant amount of interaction with the City of Norfolk.

I want to take this opportunity to thank APA for its prompt and thorough response to VDSS' notification to APA when it discovered the requests for reimbursement by the Norfolk Department of Human Services. If you have any questions, I am available to discuss them with you.

Sincerely,


Anthony Conyers, Jr.

cc: Bo Harris
Margaret Schultze
J. R. Simpson
Jack Frazier
Richard Schreiber

NOV 14 '07 PM 3:12



City of Norfolk

Office of the City Manager

November 21, 2007

Walter J. Kucharski, Auditor
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

In July 2007, your office informed the City Administration (Administration) that you had been contacted by the Virginia Department of Social Services (DSS) regarding an internal audit they were conducting. Pursuant to your responsibilities you would also initiate a review and in particular your staff would review a contract between Norfolk's Department of Human Services (Human Services) and Norfolk State University (NSU). The purpose of this letter and attached document are in response to your report. However, first please know I appreciate the review you performed. The City of Norfolk takes your observations and findings very seriously and commits to implement improvements, some of which have already have accomplished.

As identified in the report, the examination included three phases: 1) a review of the contract between NSU and Human Services, 2) information gathered by the Virginia Department of Social Services (DSS) review of Human Services, and 3) a limited review of Human Services reporting of reimbursement requests to DSS.

The Administration concurs with the majority of the findings identified in the NSU/Human Services section of the APA report, and we have established corrective actions to prevent these issues from arising in the future. Specifically, the Department hired an Enterprise Controller in May 2007 who has worked diligently to address not only the audit issues, but establish other procedures and systems to increase checks and balances and accountability.

The Administration does however have serious concerns with the section of the evaluation associated with the Virginia Department of Social Services' (DSS) Internal Audit findings. Over the course of the last six months, the City has attempted to resolve issues identified in the DSS Internal Audit. As late as October 5, 2007, the majority of these issues appeared to have been resolved. At that time, the City was provided the opportunity to respond to the small number of outstanding issues.

However, this opportunity was later rescinded, and many of the once resolved issues were resurrected as major concerns. Clearly, this process runs counter to any normal audit process. The City has worked in good faith throughout this audit to provide information and to make corrective actions as soon as concerns were validated. Best practices in governmental audit procedures have always supported an open process for the sharing of information to ensure that findings reflect the facts.

As to the findings themselves, since we were not afforded the ability to comment prior to the public release of the DSS report, this document also now comprises our formal response to that report, as well as your report.

In addition to the DSS audit process, I am concerned about some of the conclusions reached by them. I am advised that simple procedures such as the allocation of staff time and reconciliation of claims continue to be issues despite the fact that DSS officials can tie source documents to reimbursement claims on a consistent basis. It is perplexing that audit staff have not consulted other units of DSS and adjusted their findings accordingly.

Another example is that as late as November 16, 2007, DSS staff still insist that the Department of Human Services hired attorneys outside of the City to supplement those services provided by the City Attorney. In a formal letter, the City Attorney indicated that this was not the case. Still, this "finding" was presented to APA staff.

Another example has been DSS' reluctance to address direct questions such as identifying categories that will result in acceptable claims. Consequently, Human Services has not been allowed to process many previously claimable categories in even the current fiscal year.

The Norfolk Administration is committed to accepting our responsibility to take the corrective actions needed to address accurate findings of the DSS audit. It is in DSS and the City and Department of Human Services mutual interest that we make every effort to thoroughly research and put forward measures that help make our programs stronger. Our first and ultimate responsibility is a shared one of ensuring that we efficiently and effectively provide the programs and benefits to low income families, children and vulnerable adults. I would ask your office's assistance in helping to ensure we have the support of the DSS financial systems.

I look forward to resolving all outstanding issues regarding this audit so that we might move forward to focus on the people we serve.

Sincerely,



Regina V.K. Williams
City Manager

C: Marcus Jones, Assistant City Manager
Steve de Mik, Director of Finance & Business Services
Sharon Laisure, Acting Director of the Department of Human Services

Review Summary-General Observations	
APA Findings & Observations	City of Norfolk Responses
<p>Based on our work, we have the following general observations and conclusions.</p> <p>1. We could not confirm that the accounting system and supporting documentation directly supported Human Services' reimbursement requests to Social Services for most of the amounts for fiscal year 2007.</p> <p>Social Services should require Human Services to reconcile their accounting system and detailed records to each request for reimbursement and make any appropriate adjustments.</p>	<p>All administrative and operating expenses claimed for reimbursement in LASER are supported by general ledger transactions. We agree that a reconciliation to the general ledger was not performed on a monthly basis enabling certain claim costs to be omitted. However, it is important to note that until recently, a monthly reconciliation was not required by DSS. A new monthly reporting and reconciliation process has been established and will ensure no transactions are overlooked for consideration when determining appropriate expenditures for reimbursement.</p>
<p>2. City management, outside of Human Services, was unaware of the scope of its contract with the University. Additionally, City management did not know of the University subcontractor's involvement in the procurement method or the scope of their work.</p> <p>City management should institute a review of all outside contracts directly entered into without the use of the City's purchasing office, especially any others within Human Services.</p>	<p>The City agrees that the details of the subcontract were not specifically known by the City Manager's Office. Communications between the Department of Human Services and the City Management are being reviewed and administrative directives have been re-emphasized to ensure accountability and enhanced communication between the Department of Human Services and the City Management.</p>
<p>3. The <u>Code of Virginia</u> authorizes the Commissioner of Social Services to determine the appropriate and reasonable amount of reimbursement for such items as rent and other variable costs. There is no central record or documentation of any of these determinations.</p> <p>Social Services should document the Commissioner's determination of the appropriate and reasonable amount of reimbursement for such items as rent and other variable costs.</p>	<p>Human Services continues to work with the Commissioner's office to determine the appropriate and reasonable amount to be reimbursed for such items as rent and other variable costs.</p> <p>Rent: It is important to note that Human Services and DSS have agreed that 11,483 sq. ft. (of the 88,666 sq. ft. Workforce Development Center) housed functions that should not have been included in the Human Services claim. These claimed amounts have been identified and a reverse claim was executed in June 2007. A separate issue involves the rental rate in general. The rent being paid is comparable with rental rates in the local real estate market, and Human Services has provided supporting documentation to DSS in this regard.</p>

Review Summary-General Observations	
APA Findings & Observations	City of Norfolk Responses
3. (cont'd)	Other variable costs: The City concurs with DSS on determining appropriate amounts for other variable costs. The major issue in this case is administrative costs associated with the Juvenile Detention Center. These costs were not properly allocated between Human Services and the Juvenile Detention Center. In August, Human Services provided DSS with a reasonable and justifiable allocation methodology based on percentage of budget. We believe this is an acceptable methodology and have awaited DSS approval for the past three months.
<p>4. Social Services does not have a formal, documented, or systematic method of reviewing reimbursement requests and monitoring local social service agency financial activity. Social Services has an informal process to review and monitor local social service agency financial activity, which resulted in the discovery of the issues in this report.</p> <p>Social Services should formalize its review and monitoring activities and document what authority the staff have to take appropriate actions if the activity appears inappropriate or excessive.</p>	Human Services concurs with the observation and welcomes the additional oversight and support being offered by the DSS Finance office. We will continue to work with the all State partners to assure full compliance to State and Federal reporting and reimbursement guidelines.
<p>5. The University's Department of Social Work negotiated and oversaw the contract between the University and Human Services outside of all the University's normal internal control systems. On several occasions senior managers approved actions to bypass normal University processes.</p> <p>The President and Board of Visitors should re-enforce and emphasize to University staff and management that no contracts are valid and binding on the University if done outside of the University's normal procurement process.</p>	No response as this is a matter to be handled by Norfolk State University.

Department of Social Services	
APA Findings & Observations	City of Norfolk Responses
<ul style="list-style-type: none"> Contract Conflict of Interest <p>Human Services used a city-wide vendor contract for computer programming services. Human Services' Director of Information Technology had responsibility for overseeing the work performed; and during this time, a conflict of interest arose when the Director supervised a direct relative performing contracted work. While Internal Audit is not questioning the receipt of the work, the time taken to complete the work, or its quality, they are questioning management's override of the internal controls.</p>	<p>We concur with the observation. The City not only prohibits conflicts of interests, we do not want there to be an appearance of a conflict. It is important to note the invoices for the Human Services information technology work had a second review by an employee in the City's Department of Information Technology.</p> <p>Once the conflict was identified by the City Attorney, the City acted appropriately.</p>
<ul style="list-style-type: none"> Controls over Information Technology Contract <p>Internal Audit found a number of the payments to a city-wide vendor for computer services were above the budgeted amounts established in the original work order. Additionally, supporting documentation for one of the payments indicates the vendor provided services outside the scope of the contract amendment.</p>	<p>The payments were made within the City's budgetary and internal controls whereby all contract amendments were appropriately encumbered and paid against those budgetary reservations.</p>
<ul style="list-style-type: none"> City Attorney Salaries <p>The City Attorney's office provides a variety of services to Human Services. There is an indication that Human Services may have requested reimbursement twice from Social Services for these attorneys.</p>	<p>The City disagrees with the DSS Internal Audit finding and has provided supporting documentation to DSS (on numerous occasions) that demonstrates that claims were not duplicated.</p>
<ul style="list-style-type: none"> Planning Council's Indirect Rate <p>Human Services has a contract with a vendor, Planning Council, for services. The contract with Planning Council references that it has a federally approved indirect cost rate that it subsequently includes in its invoices to Human Services.</p>	<p>The City concurs that payments appear to be above the federally approved reimbursement rate. The City is prepared to remit the approximate \$17,000 back. Additionally, future contracts will include a provision that the City will only pay the federally approved rate we will submit claims for reimbursement accordingly.</p>

City of Norfolk Department of Human Services	
APA Findings & Observations	City of Norfolk Responses
<p>The auditors could not take individual transactions and trace them in summary or other form into LASER from the accounting records. Additionally, we found that Human Services did not apply consistent policies or procedures when determining the amount of an individual transaction to charge to Social Services.</p> <p>We believe that this situation constitutes a material breakdown in the system of internal controls. Further, we are recommending that Social Services require the City to perform a detailed reconciliation of the City's accounting records to the LASER billings.</p>	<p>The Administration concurs with the majority of the findings identified in the final phase of the review (the contract between the University and Human Services). Human Services hired an Enterprise Controller in May 2007, and he has worked diligently to address the concerns raised in the final stage of the Auditor of Public Accounts (APA) review.</p>
<p>Until the management of Human Services hired the Enterprise Controller in May 2007, neither the University nor the management of Human Services appeared to have had sufficient knowledge to review the University's subcontractor's work. As we discuss later, neither the University nor the management of Human Services appeared to provide any oversight of these services.</p> <p>Human Services relied heavily on the University's subcontractor, who received no supervision by the University, to determine how Human Services would claim reimbursement from both the State and Federal government. Furthermore, we could find no evidence that Human Services' management tried to obtain guidance from Social Services or questioned the appropriateness of the University subcontractor's advice on claiming non-cash items for reimbursement.</p> <p>In reviewing the activities of Human Services operations and its relationships with both Social Services and the University, we can find no documented evidence of properly executed oversight and management of administrative functions. Contractors and employees appear to have done work, which they thought appropriate with no direction from management.</p>	<p>The Administration plans to enter into a new training contract with Norfolk State University that includes clear performance measures and contract deliverables. Further, in order to dismiss any misunderstanding related to the RevMax component of the previous contract, the RevMax portion of the new contract has been eliminated. The new contract should be executed by January 2008.</p>
Norfolk State University	
City has no response as the observations are directed at the University.	

November 13, 2007

Mr. Walter Kucharski
Auditor of Public Accounts
Commonwealth of Virginia
P. O. Box 1295
Richmond, VA 23218

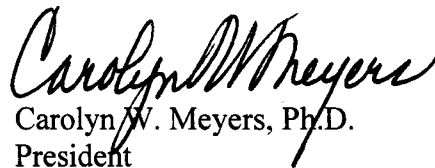
Dear Mr. Kucharski:

On behalf of Norfolk State University, please accept our appreciation for all of the consideration you and your office extended to us during the preparation of the 2007 Special Report on DSS, NDHS, and NSU. As stated during our phone conversations, Norfolk State University respects the policies of the Commonwealth of Virginia and works every day to assure good and lawful citizenship.

Regarding the findings in the report, as I mentioned to you, we cannot fully recreate the circumstances that led to the irregularities cited nor can we change history as the responsible senior administrators are no longer at the University. What we can and are doing is putting in place practices and procedures to assure that the cited observations of irregularities will not occur again. Attached is a brief listing of the corrective actions to date on behalf of the University as well as appropriate documentation of these actions. Non-compliance with any of these actions is grounds for disciplinary action up to and including dismissal from the University.

Again, Norfolk State University thanks you for working with us through this situation.

Sincerely,


Carolyn W. Meyers, Ph.D.
President

Attachment

C: Mr. Bobby N. Vassar, Rector
Norfolk State University Board of Visitors

NOV 15 '07 AM 9:17

2007 Special Report on DSS, NDHS, and NSU
Corrective Actions
Norfolk State University

- Completed review of all Norfolk State University contracts and grants, requested by the University President of the University Auditor Mr. Ernest Ellis. At the University Auditor's direction, this review was executed by the Assistant Controller and the Director of Sponsored Programs to determine whether or not other irregular contracts and contract administration practices exist. Mr. Ellis reported that the review findings determined that this contract was the sole incidence of this irregularity.
- Notification of the University community of the authorized individuals who may encumber the University on grants, contracts, memoranda of understanding, and memoranda of agreement via the Spartan E-Daily and hard copies to all University offices.
- Notification via written memorandum of all Norfolk State University administrators, faculty, and staff that all contracts and grants must comply with established University policies, procedures, and practices as well as appropriate requirements of the Commonwealth of Virginia, circulated electronically by Spartan E-Daily as well as by hard copy to every administrative and academic unit of the University.
- Notification of all University Vice Presidents that a special mandatory attendance in-service training on procurement and other state processes involved in grants and contract administration is scheduled via hard copies to each vice president.
- Notification of the new University requirement that all procurement notices, contracts, and grants are to be reviewed formally on an annual basis for compliance with University policies and procedures as well as the appropriate requirements of the Commonwealth of Virginia via memorandum to the Vice President for Finance and Business, under whose purview these activities fall.
- Assignment of the University Controller from the Division of Finance and Business to review and monitor the fiscal operations of all ongoing and the operational plans of any new contracts from the School of Social Work for compliance with University policies and procedures as well as the appropriate requirements of the Commonwealth of Virginia.
- Reassignment of the Principal Investigator from all DSS and NDHS contracts.
- The University is continuing the review of this matter which may result in other actions.

OFFICIALS

DEPARTMENT OF SOCIAL SERVICES

Anthony Conyers, Jr.
Commissioner

Wallace G. Harris
Chief Operating Officer

CITY OF NORFOLK: DEPARTMENT OF HUMAN SERVICES

Regina V.K. Williams
City Manager

N. Clark Earl
Human Services Director

NORFOLK STATE UNIVERSITY

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Vice President for Finance and Business

Elsie M. Barnes
Vice President for Academic Affairs

